



## CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

October 22, 2003

### **S. 811**

**A bill to support certain housing proposals in the fiscal year 2003 budget for the federal government, including the downpayment assistance initiative under the HOME Investment Partnership Act**

*As ordered reported by the Senate Committee on Banking, Housing, and Urban Affairs  
on October 15, 2003*

#### **SUMMARY**

S. 811 would authorize the appropriation of funds for a down-payment assistance program for low-income homebuyers and a demonstration program to provide assistance for intergenerational dwelling units for households headed by an elderly person. This legislation also would increase the current limits on the value of loans that the Federal Housing Administration (FHA) can guarantee in certain high-cost areas of the country under six different loan guarantee programs.

CBO estimates that appropriation of the authorized amounts would cost \$729 million over the 2004-2008 period. Enacting S. 811 would not affect direct spending or revenues.

S. 811 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would benefit state and local governments, while tribal governments would be unaffected.

#### **ESTIMATED COST TO THE FEDERAL GOVERNMENT**

The estimated budgetary impact of S. 811 is shown in the following table. The costs of this legislation would fall within budget functions 600 (income security) and 370 (mortgage and housing credit).

	By Fiscal Year, in Millions of Dollars					
	2003	2004	2005	2006	2007	2008
<b>SPENDING SUBJECT TO APPROPRIATION</b>						
Spending Under Current Law						
Budget Authority/Authorization Level <sup>a</sup>	3,012	3,063	3,124	3,189	3,256	3,329
Estimated Outlays	2,561	2,660	2,769	2,867	3,072	3,122
Proposed Changes						
Downpayment Assistance						
Authorization Level	0	200	200	200	200	0
Estimated Outlays	0	20	120	200	200	180
Intergenerational Housing Assistance						
Authorization Level	0	10	0	0	0	0
Estimated Outlays	0	*	1	3	2	2
Spending Under S. 811						
Budget Authority/Authorization Level <sup>a</sup>	3,012	3,273	3,324	3,389	3,456	3,329
Estimated Outlays	2,561	2,680	2,890	3,070	3,214	3,304

Note: \* = less than \$500,000.

a. The 2003 level is the amount appropriated for that year for the HOME Investment Partnership Program and Housing for Special Populations. The 2004-2008 levels are baseline projections for these programs, assuming annual adjustments for anticipated inflation.

## **BASIS OF ESTIMATE**

For this estimate, CBO assumes that S. 811 will be enacted early in fiscal year 2004 and that the amounts necessary to implement the bill will be appropriated for each fiscal year.

### **Title I: Downpayment Assistance**

Section 102 would authorize the appropriation of \$200 million for each of fiscal years 2004 through 2007 to be used for down-payment assistance toward the purchase of single-family housing by low-income, first-time homebuyers. Up to 20 percent of grant funds may be used for home repairs within one year of the purchase of a home. CBO estimates that implementing section 102 would cost \$720 million over the 2004-2008 period, assuming appropriation of the amounts authorized for each year. The estimated outlays are based on historical spending patterns for similar activities in the HOME Investment Partnership Program.

## **Title II: Intergenerational Housing Assistance**

Section 203 would authorize the appropriation of \$10 million to fund a demonstration program providing intergenerational dwelling units for households headed by an elderly person. This demonstration would be administered in connection with the supportive housing program under section 202 of the Housing Act of 1959. The bill would require the Department of Housing and Urban Development to fund between two and four projects during the demonstration period. CBO estimates that implementing section 203 would cost \$9 million over the 2004-2008 period, assuming appropriation of the authorized amount.

## **Title III: Adjustable-Rate Single Family Mortgages and Loan Limit Adjustments**

This title would make a technical adjustment to the Hybrid Arm program for single-family mortgages and would increase the current limits on the value of loans that the FHA can guarantee in certain high-cost areas of the country under six different loan guarantee programs. CBO estimates that neither of the provisions would result in any significant cost to the federal government. A more detailed explanation of the increases in loan limits is provided below.

Under the National Housing Act, FHA is authorized to insure private loans used to finance certain multifamily homes, subject to certain limitations specified in appropriation acts. Section 302 would increase the current limit on the value of loans that FHA can guarantee in certain high-cost areas of the country under six different loan guarantee programs. (High-cost housing markets include such cities as Boston, San Francisco, and Los Angeles.) FHA would be able to insure loans at higher levels in other parts of the country as well, but on a project-by-project basis.

Under current law, most FHA programs that guarantee multifamily mortgages have a negative subsidy rate as estimated under credit reform procedures, resulting in net offsetting collections to the government. That is, guarantee fees paid to FHA for new mortgages more than offset the cost of expected defaults, resulting in net collections from five of the six loan guarantee programs affected by the bill. (One of the programs that would be affected by the bill—loans to support housing for moderate income and displaced families—is estimated to have a positive subsidy rate of 5.35 percent in 2004). In 2002, FHA insured about \$5 billion in loans for multifamily projects. The budgetary impact of those guarantees was recorded as discretionary savings of about \$20 million.

If FHA made additional loan guarantees as a result of the higher cap on the value of loans in high-cost areas, the agency would record additional offsetting collections (which would be a reduction in discretionary spending). Based on information from FHA, however, CBO

does not expect that demand for multifamily housing guarantees would increase significantly under this bill. In many high-cost areas of the country, additional problems, such as regulatory barriers and market forces (e.g., supply of suitable sites), also contribute to the lack of multifamily housing. Therefore, CBO estimates that any additional collections under the bill would be insignificant over the next five years.

## **INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT**

S. 811 contains no intergovernmental or private-sector mandates as defined in UMRA and would benefit state and local governments, while tribal governments would be unaffected. Any costs incurred by those entities and would be voluntary and a result of complying with grant conditions.

## **PREVIOUS CBO ESTIMATES**

On May 23, 2003, CBO transmitted a cost estimate for H.R. 1276, the American Dream Downpayment Act, as ordered reported by the House Committee on Financial Services on May 21, 2003. H.R. 1276 is similar to title I of S. 811; however, H.R. 1276 would only authorize the program through 2005. As a result, the estimated cost for title I of S. 811 is \$320 million higher over the 2004-2008 period.

On August 15, 2003, CBO transmitted a cost estimate for H.R. 1985, the FHA Multifamily Loan Limit Adjustment Act of 2003, as ordered reported by the House Committee on Financial Services on July 23, 2003. H.R. 1985 is identical to section 302 of S. 811, and therefore, the estimated costs for the increase in multifamily loan limits in both bills are the same.

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